

WISCONSIN POWER AND LIGHT COMPANY

Estimated Income Statement

Average Net Investment Rate Base

and

Revenue Requirement

For the Test Year Ending December 31, 2010

Electric and Gas Utility Operations

September 15, 2009

Gas and Energy Division

PUBLIC SERVICE COMMISSION OF WISCONSIN

Wisconsin Power and Light Company  
Estimated Operating Income Statement and  
Average Net Investment Rate Base  
For the Test Year Ending December 31, 2010 at Present Rates  
Electric Utility Operations  
Dollars in Thousands

	Total Company			Wisconsin Retail		
	Company Filed	Staff Adjustments	Staff Estimate	Company Filed	Staff Adjustments	Staff Estimate
<b>Estimated Income Statement</b>						
<b>Operating Revenues</b>						
Sales of Electricity	\$ 1,095,546	\$ 3,387	\$ 1,098,933	\$ 931,573	\$ 3,386	\$ 934,959
Interruptible Credits	--	--	--	(1,584)	144	(1,440)
Other Operating Revenues	9,969	--	9,969	9,045	(6)	9,039
Total Operating Revenues	<u>\$ 1,105,515</u>	<u>\$ 3,387</u>	<u>\$ 1,108,902</u>	<u>\$ 939,034</u>	<u>\$ 3,524</u>	<u>\$ 942,558</u>
<b>Operating Expenses</b>						
Fuel & Purchased Power	\$ 539,869	\$ (2,227)	\$ 537,642	\$ 417,088	\$ (460)	\$ 416,628
Production Expenses	61,853	(8,472)	53,381	48,151	(6,552)	41,599
Transmission Expenses	112,155	(763)	111,392	105,159	(598)	104,561
Distribution Expenses	22,873	(1,223)	21,650	22,243	(1,194)	21,049
Customer Accounts Expenses	14,258	(762)	13,496	14,164	(759)	13,405
Customer Service Expenses	36,412	(750)	35,662	36,412	(749)	35,663
Administrative and General Expenses	80,262	(5,195)	75,067	70,915	(4,528)	66,387
Total Operation and Maintenance Exp.	<u>\$ 867,682</u>	<u>\$ (19,392)</u>	<u>\$ 848,290</u>	<u>\$ 714,132</u>	<u>\$ (14,840)</u>	<u>\$ 699,292</u>
Depreciation Expense	91,373	(865)	90,508	81,449	(669)	80,780
Regulatory Asset Amortization	8,704	(4,763)	3,941	4,399	(2,323)	2,076
Taxes Other Than Income Taxes	39,736	(1,308)	38,428	36,146	(1,511)	34,635
Deferred Income Taxes	16,465	2,095	18,560	1,404	13,867	15,271
Income Taxes	(6,816)	8,972	2,156	13,631	(5,217)	8,414
Total Operating Expenses	<u>\$ 1,017,144</u>	<u>\$ (15,261)</u>	<u>\$ 1,001,883</u>	<u>\$ 851,161</u>	<u>\$ (10,693)</u>	<u>\$ 840,468</u>
<b>Net Operating Income</b>	<u>\$ 88,371</u>	<u>\$ 18,648</u>	<u>\$ 107,019</u>	<u>\$ 87,873</u>	<u>\$ 14,217</u>	<u>\$ 102,090</u>
<b>Average Net Investment Rate Base</b>						
Utility Plant in Service	\$ 2,970,962	\$ (66,548)	\$ 2,904,414	\$ 2,648,362	\$ (51,962)	\$ 2,596,400
Less: Reserve for Depreciation	1,206,827	(68,160)	1,138,667	1,052,124	(53,298)	998,826
Net Utility Plant	<u>\$ 1,764,135</u>	<u>\$ 1,612</u>	<u>\$ 1,765,747</u>	<u>\$ 1,596,238</u>	<u>\$ 1,336</u>	<u>\$ 1,597,574</u>
Add: Fuel Inventory	46,425	(835)	45,590	35,670	(492)	35,178
Materials and Supplies	20,518	--	20,518	18,034	--	18,034
Investments In Assoc Co.	190	--	190	149	--	149
Less: Deferred Taxes	281,526	(6,075)	275,451	251,034	(4,735)	246,299
Customer Advances	37,231	--	37,231	37,231	--	37,231
<b>Average Net Investment Rate Base</b>	<u>\$ 1,512,511</u>	<u>\$ 6,852</u>	<u>\$ 1,519,363</u>	<u>\$ 1,361,826</u>	<u>\$ 5,579</u>	<u>\$ 1,367,405</u>
<b>Rate of Return on Average Net Investment Rate Base at Present Rates</b>				6.45%		7.47%

Wisconsin Power and Light Company  
Estimated Operating Income Statement and  
Average Net Investment Rate Base  
For the Test Year Ending December 31, 2010 at Present Rates  
Natural Gas Utility Operations  
Dollars in Thousands

	Wisconsin Retail		
	Company Filed	Staff Adjustments	Staff Estimate
<b><u>Estimated Income Statement</u></b>			
<b>Operating Revenues</b>			
Sales of Gas	\$ 240,807	\$ (10,374)	\$ 230,433
Other Operating Revenues	177	--	177
Total Operating Revenues	<u>\$ 240,984</u>	<u>\$ (10,374)</u>	<u>\$ 230,610</u>
<b>Operating Expenses</b>			
Purchased Gas Expense	\$ 167,179	\$ (10,597)	\$ 156,582
Production Expenses	537	(17)	520
Distribution Expenses	5,858	(356)	5,502
Customer Accounts Expenses	5,674	(212)	5,462
Customer Service Expenses	12,173	(1,602)	10,571
Administrative and General Expenses	14,333	(944)	13,389
Total Operation and Maintenance Exp.	<u>\$ 205,754</u>	<u>\$ (13,728)</u>	<u>\$ 192,026</u>
Depreciation Expense	11,775	--	11,775
Regulatory Asset Amortization	985	(10)	975
Taxes Other Than Income Taxes	4,382	(547)	3,835
Deferred Incomes Taxes	379	--	379
Income Taxes	3,809	1,713	5,522
Total Operating Expenses	<u>\$ 227,084</u>	<u>\$ (12,572)</u>	<u>\$ 214,512</u>
<b>Net Operating Income</b>	<u>\$ 13,900</u>	<u>\$ 2,198</u>	<u>\$ 16,098</u>
<b><u>Average Net Investment Rate Base</u></b>			
Utility Plant in Service	\$ 419,446	\$ --	\$ 419,446
Less: Reserve for Depreciation	203,117	--	203,117
Net Utility Plant	<u>\$ 216,329</u>	<u>\$ --</u>	<u>\$ 216,329</u>
Add: Gas in Storage	24,002	278	24,280
Materials and Supplies	2,243	--	2,243
Less: Deferred Taxes	25,717	23	25,740
Customer Advances	4,638	--	4,638
<b>Average Net Investment Rate Base</b>	<u>\$ 212,219</u>	<u>\$ 255</u>	<u>\$ 212,474</u>
<b>Rate of Return on Average Net Investment Rate Base at Present Rates</b>	6.55%		7.58%

Wisconsin Power and Light Company  
Summary of Commission Staff Adjustments  
Electric and Gas Operating Revenues and Expenses  
Dollars in Thousands

Adj No.		Total Company Electric	Gas	Total
	<u>Operating Revenue Adjustments</u>			
1	Increase Electric Residential Sales	\$ 3,387	\$ --	\$ 3,387
2	Margin Impact Relating to Net Increase in Gas Sales	--	223	223
3	Decrease Purchased Gas Adjustment Clause Revenues	--	(10,597)	(10,597)
	Total Operating Revenue Adjustments	<u>\$ 3,387</u>	<u>\$ (10,374)</u>	<u>\$ (6,987)</u>
	<u>Operating Expense Adjustments</u>			
4	Operation and Maintenance Payroll	\$ (4,867)	\$ (964)	\$ (5,831)
5	Fuel and Purchased Power Expense	(2,018)	--	(2,018)
6	Allowances	887	--	887
7	Purchased Gas Expense	--	(10,597)	(10,597)
8	Manufactured Gas Production Expenses	--	10	10
9	Chemical Costs	(2,485)	--	(2,485)
10	Rock River 1 & 2 and Blackhawk 3 & 4	(1,094)	--	(1,094)
11	Hydro Expenses	(4,000)	--	(4,000)
12	Other Power Generation Expenses	(1,108)	--	(1,108)
13	Transmission Expenses-Schedule 16 & 17	(724)	--	(724)
14	Tree Trimming	(300)	--	(300)
15	Uncollectible Accounts Expense	(379)	(63)	(442)
16	Customer Service Expense Reallocation	(300)	300	--
17	Conservation Budget	(204)	(51)	(255)
18	Conservation Escrow Adjustment	(44)	(1,773)	(1,817)
19	Office Supplies and Expenses	(827)	(173)	(1,000)
20	Updated Construction / New Energy Resources Budget	(266)	(202)	(468)
21	Property Insurance	(195)	(41)	(236)
22	Pensions and Benefits Expense	(2,473)	(384)	(2,857)
23	Economic Development	(156)	(33)	(189)
24	Miscellaneous General Expenses	(223)	(45)	(268)
25	Reduction in Administrative & General Credits	1,384	288	1,672
	Total Operating & Maintenance Adjustments	<u>\$ (19,392)</u>	<u>\$ (13,728)</u>	<u>\$ (33,120)</u>
26	Depreciation Expense	(865)	--	(865)
27	Regulatory Asset Amortization	(4,763)	(10)	(4,773)
28	Taxes Other Than Income Taxes	(1,308)	(547)	(1,855)
29	Deferred Income Taxes	2,095	--	2,095
30	Income Taxes	8,972	1,713	10,685
	Total Operating Expense Adjustments	<u>\$ (15,261)</u>	<u>\$ (12,572)</u>	<u>\$ (27,833)</u>

Wisconsin Power and Light Company  
Summary of Regulatory Asset Amortizations  
Total Company

	Company Filed	Staff Estimate	Adjustment
<u>Electric</u>			
Kewaunee Turbine	\$ 86,247	\$ 86,247	\$ --
Excess AFUDC	615,681	615,681	--
Excess AFUDC - Common Share	52,164	52,164	--
ATC/MISO Day 1 Costs	(123,853)	(123,853)	--
ATC/MISO Wheeling	(4,367,404)	(4,322,519)	44,885
Interest on Tax Deficiencies	39,362	54,440	15,078
Kewaunee Sales Expenses and Loss	307,377	307,377	--
Kewaunee Disposal Lawsuit	(376,552)	(376,552)	--
MISO Day 2	5,015,611	5,015,611	--
Baseload Precertification Costs	2,127,427	1,939,692	(187,735)
Baseload Preconstruction Costs	2,567,139	--	(2,567,139)
Baseload-Wholesale	4,278,489	1,803,575	(2,474,914)
Wind Farm Deferral	691,577	691,577	--
Cedar Ridge NIRB	(735,314)	(735,314)	--
Cedar Ridge Depreciation	(2,005,585)	(2,005,585)	--
CACP Precertification Costs	1,163,730	1,172,482	8,752
CAIR Emission Allowance	(2,368,049)	(2,066,120)	301,929
SO <sub>2</sub> Emissions Credit	(234,054)	(30,732)	203,322
SO <sub>2</sub> Emissions Credit-Wholesale	(72,316)	(36,737)	35,579
NO <sub>x</sub> Emissions Credit	(76,494)	(76,494)	--
Pension & OPEB	2,691,288	2,660,916	(30,372)
FERC Capitalized Overheads	98,280	98,280	--
EESA	(670,986)	(783,100)	(112,114)
Total	<u>\$ 8,703,765</u>	<u>\$ 3,941,036</u>	<u>\$ (4,762,729)</u>
<u>Gas</u>			
Excess AFUDC	\$ 38,494	\$ 38,494	\$ --
Excess AFUDC-Common Share	6,113	6,113	--
Pension & OPEB	505,488	499,776	(5,712)
MGP Site Clean-up Costs	434,508	430,416	(4,092)
Total	<u>\$ 984,603</u>	<u>\$ 974,799</u>	<u>\$ (9,804)</u>

Wisconsin Power and Light Company  
Weighted Cost of Capital at  
Various Returns on Common Equity

<u>Capital Structure</u>	<u>Amount (000's)</u>	<u>Capitalization Percentage</u>	<u>Annual Cost Rate with 10.00% Return on Common</u>	<u>Weighted Cost</u>	<u>Annual Cost Rate with 10.20% Return on Common</u>	<u>Weighted Cost</u>	<u>Annual Cost Rate with 10.40% Return on Common</u>	<u>Weighted Cost</u>	<u>Annual Cost Rate with 10.60% Return on Common</u>	<u>Weighted Cost</u>
(A) Utility Common Stock Equity	\$ 1,206,730	50.33%	10.00%	5.03%	10.20%	5.13%	10.40%	5.23%	10.60%	5.33%
(B) Preferred Stock	59,963	2.50%	5.52%	0.14%	5.52%	0.14%	5.52%	0.14%	5.52%	0.14%
(C) Long Term Debt	1,058,331	44.14%	6.44%	2.84%	6.44%	2.84%	6.44%	2.84%	6.44%	2.84%
(D) Short-Term Debt	72,695	3.03%	1.50%	0.05%	1.50%	0.05%	1.50%	0.05%	1.50%	0.05%
(E) Total	<u>\$ 2,397,719</u>	<u>100.00%</u>		<u>8.06%</u>		<u>8.16%</u>		<u>8.26%</u>		<u>8.36%</u>
(F) Income Taxes on Equity Capital at 35% Federal and 7.9% Wisconsin Tax .6704 X Lines (A) + (B)				<u>3.47%</u>		<u>3.53%</u>		<u>3.60%</u>		<u>3.67%</u>
(G) Ratepayer Cost of Capital				<u>11.53%</u>		<u>11.69%</u>		<u>11.86%</u>		<u>12.03%</u>
<u>Interest Coverages</u>										
(H) Before Tax Coverage Line (G) / Lines (C) + (D)				3.99		4.05		4.10		4.16
(I) After Tax Coverage Line (E) / Lines (C) + (D)				2.79		2.82		2.86		2.89

Wisconsin Power and Light Company  
Ratio of Average Net Investment Rate Base  
Plus Construction Work In Progress to  
Capital Applicable Primarily to Utility Operations  
Plus Deferred Investment Tax Credit

	Test Year Average (000's)
Average Net Investment Rate Base	\$ 1,731,835
Construction Work in Progress	384,920
Total Utility Rate Base Plus Construction Work in Progress	<u>\$ 2,116,755</u>
Other Assets	583,061
Other Liabilities	<u>(428,708)</u>
Total Utility Rate Base Plus Construction Work in Progress and Net Assets	<u><u>\$ 2,271,108</u></u>
Capitalization and Retained Earnings	
Common Equity	\$ 1,385,357
Less: Nonutility Property and Other Investments	<u>178,627</u>
Utility Common Equity	\$ 1,206,730
Preferred Stock	59,963
Long-Term Debt	1,058,331
Short-Term Debt	<u>72,695</u>
Total Capitalization	\$ 2,397,719
Add: Customer Deposits	3,786
Deferred Comp.	16
Deduct: Manufactured Gas Plant Site Clean-up	1,181
KNPP Sales Expense and Loss	1,613
MISO Day 2	1,501
Wind Farm Precertification Costs	207
Shared Savings	96,513
Investment in Wisconsin River Power	9,904
Temporary Cash Investments	5,878
Bent Tree Payment	12,500
NED Baseload-Precertification Costs	5,226
EESA	(235)
CAIR	(618)
ATC Network Service	(1,294)
Cedar Ridge NIRB	(220)
Cedar Ridge Depreciation	(601)
Pension and Benefits (O&M)	8,515
CACP	<u>1,755</u>
Capital Applicable Primarily to Utility Operations	\$ 2,259,696
Deferred Investment Tax Credit	<u>11,412</u>
Total Capitalization Applicable Primarily to Utility Operations Plus Deferred Investment Tax Credit	<u><u>\$ 2,271,108</u></u>
Percent Utility Rate Base Plus Construction Work in Progress to Capital Applicable Primarily to Utility Operations Plus Deferred Investment Tax Credit	<u><u>93.20%</u></u>

Wisconsin Power and Light Company  
Required Rate of Return on  
Average Net Investment Rate Base  
at Various Returns on Common Stock Equity  
Wisconsin Retail Electric Utility Operations  
Dollars in Thousands

	At 10.00% Return on Common Equity	At 10.20% Return on Common Equity	At 10.40% Return on Common Equity	At 10.60% Return on Common Equity
(A) Weighted Cost of Capital	8.06%	8.16%	8.26%	8.36%
(B) Ratio of Average Net Investment Rate Base Plus CWIP to Capital Applicable Primarily to Utility Operations plus Deferred Investment Tax Credit	93.20%	93.20%	93.20%	93.20%
(C) Adjusted Cost of Capital to Derive Percent Return Requirement Applicable to Average Net Investment Rate Base (A/B)	8.65%	8.76%	8.86%	8.97%
(D) Average CWIP Earning a Current Return	\$ 256,212	\$ 256,212	\$ 256,212	\$ 256,212
(E) Earnings on CWIP Receiving Current Return at the Adjusted Cost of Capital (D X C)	\$ 22,162	\$ 22,444	\$ 22,700	\$ 22,982
(F) Average Retail Net Investment Rate Base	\$ 1,367,405	\$ 1,367,405	\$ 1,367,405	\$ 1,367,405
(G) Adjustment to Provide Current Return on CWIP (E/F)	1.62%	1.64%	1.66%	1.68%
(H) MISO Day 2	\$ 1,501	\$ 1,501	\$ 1,501	\$ 1,501
(I) KNPP Sales Expenses and Loss (Net Loss)	\$ 1,613	\$ 1,613	\$ 1,613	\$ 1,613
(J) Wind Farm Precertification Costs	\$ 207	\$ 207	\$ 207	\$ 207
(K) Baseload Precertification	\$ 5,225	\$ 5,225	\$ 5,225	\$ 5,225
(L) CAIR	\$ (618)	\$ (618)	\$ (618)	\$ (618)
(M) ATC Network Service	\$ (1,294)	\$ (1,294)	\$ (1,294)	\$ (1,294)
(N) Cedar Ridge NIRB	\$ (220)	\$ (220)	\$ (220)	\$ (220)
(O) Cedar Ridge Depreciation Expense	\$ (600)	\$ (600)	\$ (600)	\$ (600)
(P) Pensions and Benefits (O&M)	\$ 8,515	\$ 8,515	\$ 8,515	\$ 8,515
(Q) CACP	\$ 1,755	\$ 1,755	\$ 1,755	\$ 1,755
(R) EESA	\$ (234)	\$ (234)	\$ (234)	\$ (234)
(S) Total Regulatory Assets Earning at Short-Term Debt (H thru R)	\$ 15,850	\$ 15,850	\$ 15,850	\$ 15,850
(T) Current Earnings on Regulatory Assets at Short-Term Debt Rate	\$ 238	\$ 238	\$ 238	\$ 238
(U) Adjustment to Return for Regulatory Assets Earning at Short-Term Debt Rate (T/F)	0.02%	0.02%	0.02%	0.02%
(V) Required Rate of Return on Average Net Investment Rate Base (C+G+U)	10.29%	10.42%	10.54%	10.67%



Wisconsin Power and Light Company  
Required Rate of Return on  
Average Net Investment Rate Base  
at Various Returns on Common Stock Equity  
Wisconsin Retail Natural Gas Utility Operations  
Dollars in Thousands

	At 10.00% Return on Common Equity	At 10.20% Return on Common Equity	At 10.40% Return on Common Equity	At 10.60% Return on Common Equity
(A) Weighted Cost of Capital	8.06%	8.16%	8.26%	8.36%
(B) Ratio of Average Net Investment Rate Base Plus CWIP to Capital Applicable Primarily to Utility Operations Plus Deferred Investment Tax Credit	93.20%	93.20%	93.20%	93.20%
(C) Adjusted Cost of Capital to Derive Percent Return Requirement Applicable to Average Net Investment Rate Base (A/B)	8.65%	8.76%	8.86%	8.97%
(D) Average CWIP Earning a Current Return	\$ 1,949	\$ 1,949	\$ 1,949	\$ 1,949
(E) Earnings on CWIP Receiving Current Return at the Adjusted Cost of Capital (D X C)	\$ 169	\$ 171	\$ 173	\$ 175
(F) Average Net Investment Rate Base	\$ 212,474	\$ 212,474	\$ 212,474	\$ 212,474
(G) Adjustment to Return Requirement to Provide Current Return on 50% of CWIP (E/F)	0.08%	0.08%	0.08%	0.08%
(H) Required Rate of Return on Average Net Investment Rate Base (C+G)	8.73%	8.84%	8.94%	9.05%

Wisconsin Power and Light Company  
Indicated Retail Electric Rate Increase  
Based on 10.00%, 10.20%, 10.40% and 10.60%  
Return Allowances on Common Equity

	At 10.00% Return on Common Equity	At 10.20% Return on Common Equity	At 10.40% Return on Common Equity	At 10.60% Return on Common Equity
Return on Average Net Investment Rate Base at Present Rates	7.47%	7.47%	7.47%	7.47%
Required Return on Average Net Investment Rate Base	10.29%	10.42%	10.54%	10.67%
Earnings Deficiency as a Percent of Average Net Investment Rate Base	2.82%	2.95 %	3.07%	3.20%
Average Net Investment Rate Base (000's)	\$ 1,367,405	\$ 1,367,405	\$ 1,367,405	\$ 1,367,405
Earnings Deficiency on Average Net Investment Rate Base (000's)	\$ 38,561	\$ 40,338	\$ 41,979	\$ 43,757
Revenue Deficiency to Provide for Earnings Deficiency Plus Federal and State Income Taxes (000's)	\$ 64,413	\$ 67,382	\$ 70,123	\$ 73,093
Retail Sales Revenue at Presnt Rates (000's)	\$ 934,959	\$ 934,959	\$ 934,959	\$ 934,959
Percentage Rate Increase	6.89%	7.21%	7.50%	7.82%

Wisconsin Power and Light Company  
Indicated Retail Gas Rate Increase  
Based on 10.00%, 10.20%, 10.40% and 10.60%  
Return Allowances on Common Equity

	At 10.00% Return on Common Equity	At 10.20% Return on Common Equity	At 10.40% Return on Common Equity	At 10.60% Return on Common Equity
Return on Average Net Investment Rate Base at Present Rates	7.58%	7.58%	7.58%	7.58%
Required Return on Average Net Investment Rate Base	8.73%	8.84%	8.94%	9.05%
Earnings Deficiency as a Percent of Average Net Investment Rate Base	1.15%	1.26%	1.36%	1.47%
Average Net Investment Rate Base (000's)	\$ 212,474	\$ 212,474	\$ 212,474	\$ 212,474
Earnings Deficiency on Average Net Investment Rate Base (000's)	\$ 2,443	\$ 2,677	\$ 2,890	\$ 3,123
Revenue Deficiency to Provide for Earnings Deficiency Plus Federal and State Income Taxes (000's)	\$ 4,081	\$ 4,472	\$ 4,828	\$ 5,217
Gas Sales and Transportation Revenue at Present Rates (000's)	\$ 230,433	\$ 230,433	\$ 230,433	\$ 230,433
Percentage Rate Increase Based on Gas Sales and Transportation Revenue	1.77%	1.94%	2.10%	2.26%
Gas Sales and Transportation Revenue at Present Rates (000's)	\$ 230,433	\$ 230,433	\$ 230,433	\$ 230,433
Less: Purchased Gas Expense (000's)	156,582	156,582	156,582	156,582
Margin Revenue (000's)	\$ 73,851	\$ 73,851	\$ 73,851	\$ 73,851
Percentage Rate Increase Based on Margin Revenue	5.53%	6.06%	6.54%	7.06%

## Wisconsin Power and Light Company

Reasons for Increase in Rates  
from Docket 6680-UR-116  
(000's)Electric Operations

Reduction in Sales and Miscellaneous Revenue	\$ 89,371
Reduction in Fuel and Purchased Power Costs	(65,423)
Bent Tree Wind Farm (100% Current Return)	27,282
Pension Costs	9,890
Transmission Expenses	3,960
Conservation	3,963
Distribution Expenses	1,455
Depreciation/Amortization	(7,996)
Increased Rate Base, Return and Other	<u>10,591</u>
Total	<u><u>\$ 73,093</u></u>

Gas Operations

Pension Costs	\$ 1,626
Margin on Gas Sales	1,537
Depreciation/Amortization	789
Operation and Maintenance excluding Pensions	(593)
Increased Rate Base, Return and Other	<u>1,858</u>
Total	<u><u>\$ 5,217</u></u>